

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF LOUISIANA**

<b>UNITED STATES OF AMERICA</b>	*	<b>CRIMINAL DOCKET NO. 07-181</b>
<b>v.</b>	*	<b>SECTION: "B"</b>
<b>MICHAEL O'KEEFE, JR</b>	*	<b>VIOLATIONS: 18 U.S.C. § 1010</b>
	*	<b>18 U.S.C. § 2</b>
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**FACTUAL BASIS**

If this case were to proceed to trial, the Government would prove the guilt of the defendant beyond a reasonable doubt through the introduction of admissible evidence and the testimony of credible and competent witnesses. The government would prove that the defendant aided and abetted a material false statement to HUD to obtain HUD mortgage insurance. More specifically, the government would prove the following:

**A. Summary of the Scheme**

In order to encourage home ownership by low income home buyers who could not afford the standard 10-20 percent down payment ordinarily required by lending institutions for a conventional mortgage, the federal government enacted a HUD loan program which guarantees home loans for qualified buyers. Under this HUD loan program, HUD insures 97% of the loan and is responsible

for paying the outstanding loan amount to the financial institution holding the mortgage loan if the mortgagor defaults on the loan. This guarantee makes these loans very marketable on the secondary mortgage market.

Citywide Mortgage (“CWM”) was the center of a HUD “house-flipping” scam from 2001 through 2003. In a HUD “house-flipping” scam, a corrupt real estate investor purchases a blighted property for a nominal amount. The investor finds a nominee or “straw-buyer” for that property, and instructs the “straw-buyer” to complete a fraudulent HUD insured loan application with a mortgage company. The mortgage company then qualifies the “straw-buyer” for a HUD-insured loan. After the HUD loan is approved, the investor quickly resells (or “flips”) the property to the “straw-buyer” at an overvalued-inflated price. By using a HUD qualified “straw-buyer,” the seller is able to complete the illusion of a legitimate real estate transaction and then profit from the sale of the overvalued property to someone who never intends to move into the property and is unable to meet his financial obligations as a home-owner / home-buyer. After a period of non-payment by the “straw-buyer,” the loan defaults, a foreclosure begins, and HUD assumes the loss and pays off the mortgage.

**B. Factual Circumstances of this Case**

Citywide Mortgage Incorporated (hereinafter “CWM”) was founded in 1991 by the defendant, Michael O’Keefe, Jr. It is a Louisiana Corporation and its primary purpose is to make mortgage loans. The defendant has served as CWM’s president and owner-operator since its inception. At all times relevant to this factual basis, CWM provided conventional loans as well as federally insured mortgage financing (hereinafter “HUD loans”) for low income home buyers who could not afford the standard 10-20 percent down payment ordinarily required by lending institutions

for conventional mortgages. Under the HUD loan program, HUD is responsible for paying the outstanding loan amount to the institution holding the mortgage loan if the mortgagor defaults on the loan. This makes these loans very marketable on the secondary mortgage market because the mortgage holder assumes no risk. CWM became a direct endorsement lender (DE) for HUD and, as such, could approve loans for low income buyers at its offices at 3625 Canal Street, New Orleans, Louisiana and submit these home purchasing agreements directly to the Federal Housing Administration (FHA) for HUD mortgage insurance. HUD loans were approximately 65% of CWM's business.

During the late 1990's, Calvin Davis devised a plan to purchase distressed properties, renovate them and sell them at a profit. These homes were in the 8th, 9th and Lower 9th Wards in the city of New Orleans. This plan eventually evolved into a scheme in which he would buy a distressed property, obtain a strawbuyer, make minimal repairs, or none at all, fraudulently "qualify" the strawbuyer for a HUD loan, and sell the house at an inflated price based on a fraudulent appraisal. These appraisals were done by a corrupt appraiser. The strawbuyer never took possession of the house and was paid between \$500 and \$2,000. Calvin Davis wanted to eventually rent some of the homes as Section 8 housing under the name of the strawbuyer.

Calvin Davis convinced members of his family as well as working poor, or destitute or drug addicted persons to act as his strawbuyers. He needed a mortgage company that would qualify his strawbuyers. Davis decided to use CWM and referred the straw buyers to that mortgage company.

Michelle Carver was hired at CWM as a loan processor in 1991. In April, 1999, the defendant made her the underwriter for CWM over other more qualified and capable people. The underwriter reviews and approves all loans. The defendant also agreed to pay Carver commissions

for originating any HUD/FHA loans. This was a violation of HUD regulations which prohibited an underwriter from receiving a commission for originating HUD loans. Carver received these commission payments through at least August 2002. This was accomplished by either listing the defendant as the loan originator or listing a ghost employee “Bryan Cochrane,” as the loan originator. A check was issued to “Bryan Cochrane”, endorsed by Carver and deposited in her bank account. These false statements, that is, the false identity of the loan originator were included in the file submission to HUD.

Davis met with Carver in early 2001 and by February 2001 began sending his strawbuyers to Carver. Calvin Davis and Carver would then arrange for the strawbuyer to supply Carver and CWM with various pieces of false documentation to establish eligibility for the HUD insured loan. These false documents included fraudulent credit histories and credit references, fraudulent employment histories and employment verification, fraudulent tax returns, gift letters, pay receipts and utility payment histories. Carver was fully aware that the documents were fraudulent. After receiving the necessary documentation, Carver approved the file. After the house closing, the file was placed in a HUD Binder and sent to the HUD offices in Denver, Colorado where the insurance certificate was issued. No independent verification was undertaken by HUD regarding the legitimacy of the file or its contents because HUD had entrusted CWM with the fiduciary duty of being a DE.

After the loans were insured, CWM held the loans for a short period of time and then sold them to investors. The “Calvin Davis loans” were sold to Washington Mutual Bank (WAMU) through CWM even though CWM knew that the insurance was obtained under false pretenses and that the mortgages were obtained with false and fraudulent information. WAMU and CWM entered

into an indemnification agreement for each loan which required the loan to remain current for a period of one year. If the loan did not remain current for one year, WAMU could require CWM to buy back the mortgage and pay any associated costs.

Around September 2001, the defendant became aware that certain “Calvin Davis loans” were not current. He told Carver to tell Calvin Davis , that he (the Calvin Davis ) needed to make the loans current. No one at CWM contacted the actual mortgagors/strawbuyers. The defendant then ordered a CWM employee to convert cash from Davis into a CWM check payable to WAMU on behalf of the strawbuyers, which was then sent to WAMU to keep the delinquent loans current. On numerous occasions from October -December 2001, Davis provided an employee of CWM with a bundle of cash which she used to purchase various money orders. The money orders were then applied to the delinquent loans. Davis and Carver continued to arrange for strawbuyers to obtain fraudulent loans after October, 2001. Likewise, CWM and its employees continued to forward the files to the FHA/HUD offices in Denver, Colorado so that HUD could issue mortgage insurance. Eventually, several houses went into default and it is estimated that HUD suffered a financial loss of approximately \$685,565.55.

In the Spring, 2002, various “Calvin Davis loans” again became delinquent. In May 2002 WAMU sought indemnification on at least one of these loans. The defendant again instructed the Calvin Davis to make them current. CWM contacted Bank One on May 16, 2002. The bank issued a large number of cashier’s checks on May 16 and May 20. The cashiers’ checks were used to pay delinquent Davis loans. The cashiers’ checks were purchased with currency provided by Calvin Davis which he had acquired from his fraudulent scheme.

On July 5, 2002, WAMU sought indemnification on another Calvin Davis loan. Calvin Davis, not the mortgagors/strawbuyers, was again told by the defendant to make any delinquent loans current. On July 8, 2002, the defendant again contacted Bank One to obtain cashier checks. Money obtained by Calvin Davis through his fraudulent scheme was again used to purchase the checks. These payments were then sent to WAMU.

In July 2002, Michelle Carver originated a loan by K.E. K.E. was a strawbuyer for Davis and was not otherwise qualified for a HUD insured loan. Davis provided false documentation to Carver who then approved the loan. The loan file reflected that it had been originated by Bryan Cochrane, who was never a CWM employee. The file was sent to CWM to HUD with the various false statements and HUD issued insurance on the policy. The defendant paid "Bryan Cochrane" a commission for originating this loan in CWM Check No. 7944 in August 2002. Carver was given the check which she then endorsed and cashed.

In summary, all of the evidence introduced at trial would establish the elements of the offense and prove the guilt of the defendant beyond a reasonable doubt.

READ AND APPROVED:

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